

## CHAIRMAN'S STATEMENT

I herein present the annual report for the results of the Group for the year ended 31 December 2001.

### FINANCIAL REVIEW

#### Turnover

For the year ended 31 December 2001, the turnover of the Group was approximately HK\$331.5 million, an increase of approximately 28.1% from last year's approximately HK\$ 258.7 million. The increase was mainly due to the increases of approximately 88% in the turnover of continuing operations which includes the software solution and e-Commerce services business (the "Software business") and the manufacture and sale of electronic products business (the "Electronic products business") which mainly related to manufacture and distribution of weighing scales. The turnover of Software business increased significantly by more than 6 times from last year's approximately HK\$10.1 million to current year's approximately HK\$73.7 million. Also, there was an increase of approximately 42.2% in turnover of the Electronic products business which amounted to current year's turnover of approximately HK\$169.8 million. Nevertheless, the increase was dampened by the decrease of approximately 32% in discontinuing business — the manufacture and sale of electronic components business (the "Electronic components business") which mainly related to manufacture and distribution of semi-conductors.

#### Gross profit

The Group's gross profit was doubled to approximately HK\$56.6 million as compared to last year's approximately HK\$27.5 million. The increase was mainly due to the increase in gross profit of the Software business from last year's approximately HK\$3.8 million to current year's approximately HK\$23 million. On the other hand, the gross profit of Electronic products business increased by approximately HK\$25 million but the Electronic components business decreased by approximately HK\$15 million.

The Group's overall gross profit margin increased to approximately 17.1% compared to last year's approximately 10.6%. The increase in gross profit margin matched with the Group's strategy after the introduction of high growth and high profit margin's Software business. The gross profit margin of Software business was approximately 31.2% (2000: 38.2%). However, if the hardware costs which contributes no value added to the profit are excluded, the gross profit margin will be approximately 55%.

#### Other revenue and gains

The increase in other revenue and gains was mainly due to the profit guarantee which related to the losses incurred by the discontinuing operations — the Electronic components business. Such profit guarantee was made in accordance with the Management Agreement (as further disclosed in note 38 to the financial statements) entered by the Company on 17 May 2000.

## **FINANCIAL REVIEW** *(continued)*

### **Expenses**

The increase in selling and distribution costs and administrative expenses were due to increases of expenses in the Electronic products business and Software business as the increases in turnover and the inclusion of current full year's expenses of the Software business as compared to only a quarter's expenses were recorded in last year.

### **Liquidity**

The Group maintained a net cash position of approximately HK\$52 million as at 31 December 2001 (2000: approximately HK\$64 million).

## **REVIEW OF OPERATIONS**

Year 2001 marked a significant milestone for EC-Founder as it successfully forged into the lead in the Internet software solutions and the services industries in the PRC.

During the year, EC-Founder has been actively engaged in operation restructuring and repositioning in response to the changing market demand. By application of the software solutions in the PRC, the Company managed to establish an Internet-based, computerized and electronic operation and provides its business partners with the necessary business software accessories and application software solution services for the modern Cyber world. Customers can then capitalize on the synergy of their Internet-based operation and EC-Founder's cutting edge software innovations and technologies, thereby enhancing the operation efficiency and strengthening their market competitiveness.

During the year under review, EC-Founder continued to improve its service quality, and taking advantage of state-of-the-art technology, it endeavoured to develop and introduce from abroad the most advanced and rewarding products. Meanwhile, it also stepped up its efforts in marketing and product promotion by participating in a number of national and international promotional activities on Internet technology, such as The Fifth International Commercial Meeting on Electronics Technology and activities of The Fifth International Advanced High-tech Industries in Beijing held in May 2001, The PRC International Digital City Planning of Technology Equipment Exhibition, Comdex 2001 Exhibition in the US and the Conference of Spatial 2001 on the Application of Geographic Spatial Information. Such efforts were made to boost EC-Founder's brand promotion in the PRC and other overseas markets and helped to consolidate its position as a technology-based software and service provider. From these efforts, the Company achieved satisfactory results during the year and received wide recognition from the software technology market for its outstanding technology for customers. The operations were on a steady rise as the Company became a leading player well recognized in the industry.

# CHAIRMAN'S STATEMENT

## **REVIEW OF OPERATIONS** *(continued)*

### **Software business**

In year 2001, it was the first full year's operation as compared to last year's only one quarter's results were recorded as the completion of acquisition of Software business by the Company took place in September 2000.

The significant increases in turnover and gross profit were mainly due to the completion of project for the China Construction Bank, the launch of self-developed network security product - FireGate firewall series and self-developed GIS products - Founder Mirage series in March 2001.

During the year, the Group has established a clear development direction and became a provider of Internet software-related technology, solutions and services in the PRC by providing quality products and services to governments and enterprises in the PRC. The Group's main business achievements are as follows:

### **Network security products and solutions**

This business sector mainly involves product development and its application in protection software for the Internet and computer systems.

The Group successfully developed and launched its network security products and solutions - FireGate series in March 2001 and also obtained the licence for the product. During the year, the product passed the certification process of the Ministry of Public Security, the National Information Security Testing Evaluation and Certification Center, the military and the State Secrets Bureau, and became the second company in the PRC which successfully obtained a full set of complete certification and recommendation from all relevant regulatory departments in the PRC. In addition, the Group developed the first-ever anti-offensive simulated testing environment for network security in the PRC - "iTornado", which was also highly recognized by the relevant government authorities.

At present, the Group's sales network comprises 4 distributors, over 80 agents and 15 contract maintenance service providers with a nearly 100% customer coverage. Its customers including major corporate clients such as China Telecom, The People's Bank of China, Shanghai Telecom and China Construction Bank, Shenyang Branch. The Group also provides firewall products and services to government departments including the Headquarters of Chinese People's Armed Police Force, Wenzhou Central Tax Bureau, Sichuan Provincial Government and Shanghai Education Committee.

Moreover, the Group achieved outstanding performance in conducting the network security work on the official website of the Beijing 2008 Olympic Bidding Committee. It successfully protected the website from over 15,000 hacking attempts made by overseas hackers during the "May-Day War" in last year and was thus highly appraised and recognized by Beijing city government on several occasions.

### **REVIEW OF OPERATIONS** *(continued)*

#### **Geographic Information System**

Geographic Information System (GIS) products mainly include GIS software for enterprises such as own-developed Founder Mirage series and the distribution for the US's MapInfo products.

During the period under review, the Group signed an OEM contract with RAE Company from the US for Founder Mirage, a GIS product owned-developed by the Group, which successfully explored the overseas export market for the Group.

In addition, the Group also developed a fundamental information system for aerial photography for the National Geomatics Center of China, providing the Center with features such as overall planning and design on aerial photography, auxiliary technical design, aerial photographic simulation and searching. The Group also won the bid for the construction of the geographic information system for the Forest Fire Protection Control and Forest Resources Monitor Control of Heilongjiang Forest Industrial Bureau, which helps the Ministry of Forest to break through constraints on the reforms of traditional policies, thereby promoting the modernization of operation management in forestry. As for the logistics transportation sector, the Group entered into a project agreement with 南海合興襪業有限公司 for software development of its marketing and logistics transportation management system. The Group also successfully implemented its initiatives on alliance partner management and sales operation of alliance partners. It also strengthened its efforts on the management of the purchase, sale and inventory arms and computerized management on logistics transportation.

As for the sale of its GIS product MapInfo in the Greater China region, through its more than 100 agents nationwide, the Group successfully obtained orders from 新疆克拉瑪依油田新港石油開發公司·廣東科龍·山東電信·北京市規劃委員會 as well as order from the National Geomatics Center and 11 provinces and autonomous regions including Guizhou, Jilin, Inner Mongolia, Jiangsu, Hubei, Hunan, Henan, Guangxi, Anhui, Ningxia and Yunnan. Moreover, the Group also made aggressive efforts to develop application for China Petroleum & Chemical Corporation and China Mobile.

On the front of research and development, the Group completed the address coding technology during the year, providing enhancement for spatial technology. It is expected that the application of this new technology can help to stretch the market reach of the Group.

#### **e-Finance**

The e-Finance software technology and services business mainly involves the provision of real-time computerized software technology and service platform for finance-related companies.

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## **REVIEW OF OPERATIONS** *(continued)*

### **e-Finance** *(continued)*

During the year, the Group established a "Major Customer Services System" for the China Construction Bank. A series of linkup tests was conducted during September 2001 and the system is expected to be in full operation in 2002. The introduction of the "Major Customer Services System" came as a result of the reforms on the auditing system in the securities market. The system not only helps to cater for enterprises' demand for B2B services but at the same time bridge the linkage between securities institutes and the China Construction Bank. Such efforts aim to develop new businesses such as B2B transfers and opening of margin accounts.

### **Enterprise/Government information solutions**

The enterprise/Government information solutions business mainly involves the provision of computerized software services platform for enterprises/the Government to enhance departmental information and data exchange by means of single-platform services with an aim to streamline the customer and internal information system to enhance the service efficiency.

During the year under review, the Group developed an information solution for enterprises and the Government. As for enterprise information solutions, the Group entered into a contract with中國糧油食品進出口總公司 for the construction of the portal site (COFCO) and the FOODEC function site for its member companies as branch portals for the industry of food and oil import/export. The Group also developed in joint collaboration with海立美公司 an enterprise business administration system for the sale of air-conditioners. In addition, the Group also combined its EAP product with the EIP product of the US's Viador Company to develop a new version of EAP product. The new product is now at its final production stage and will soon be launched into the market.

Regarding Government information solutions, taking advantage of the PRC Government's aggressive boost to e-administration, the Group undertook the project of China Social Development Network (中社網) and the construction of Online Working Platform for Beijing Administration for Industry and Commerce Bureau (北京市工商局紅盾315網站). The Group was also engaged in the modification of the State Council General Office's main website and the construction of other ministry and departmental branch sites.

### **Electronic products business**

The electronic products business was performing well in 2001 due to the well accepted products such as new body fat scale and glass scale. The decrease in prices of raw material such as plastic, steel iron and electronics parts contributed to decrease in the cost of production and therefore increased the gross profit in this sector.

### REVIEW OF OPERATIONS *(continued)*

#### **Electronic components business**

As the market for semi-conductors has been deteriorating in the past few years, it affects heavily on the performance of Electronic components business. In order to protect the Group's financial position, the Company entered into a conditional disposal agreement to dispose the Electronic components business and the details were set out in the announcement of the Company on 8 April 2002. A circular contains more information about the disposal will be issued in due course.

### FUTURE PROSPECTS

Following the PRC admission to the World Trade Organisation ("WTO"), external trading activities increase and international investment in the PRC also increase as well. As a result, PRC enterprises must make sustaining efforts to enhance operation efficiency and speed up their information exchange. With real-time communication with overseas business partners, enterprises are faced with the rapid development and fierce competition in the global market. This leads to increasing demand for Internet-based information products and services.

In addition, attributable for Beijing's winning bid for hosting 2008 Olympics, the Beijing Government gives full support of the infrastructure development of the city. Meanwhile, the government is determined to turn Beijing into a "Cyber City" which in turn paves ways for immense demand for different types of networking software products needed for cyber-urbanization, ranging from security network, geographic information technology, enterprise platform and other related networking software technology products and services. And this presents an excellent business opportunity for EC-Founder.

The PRC Government demonstrates full support to this respect. During 2001, it was stressed in the PRC's "Fifteen Year Plan" that capitalization should be adopted to promote industrialization so as to realize leaping progress in productivity, and that Government functions should be transformed in order to push ahead with the reforms in the Government. After the PRC's successful entry into the WTO and its winning bid for hosting the Olympics, the Government now considers to put more resources on the development of e-administration in a bid to strengthen its communication with the public and improve government policies. It is reported that the investment in e-administration in 2002 alone will be approximately RMB 1 billion. Moreover, the Government will also focus its efforts on the PRC advanced technology research and development "Project 863". During the 15-year span of the project, it will input huge investment for support. In particular, the "industrialization of geographic information system" is ranked as a key strategic technological project in "Fifteen Year Plan". Such move will provide tremendous growth opportunity for software technology and services providers.

## CHAIRMAN'S STATEMENT

### **FUTURE PROSPECTS** *(continued)*

EC-Founder will continue to focus on the development of its Internet software technology solutions business. Business focus will be placed on network security products, geographic information system, e-finance and enterprise/government information solutions. Complemented with its customer-oriented strategy to cater for market needs, the Group will make great efforts to develop its own advanced products and in joint efforts with international partners' software products in order to step up its marketing and promotion work for a larger market share.

Leveraging on its leading position in the software industry in the PRC, state-of-the-art technology and profound capability in research and development, EC-Founder will be able to further solidify its business foundation, and coupled with the insights and business strategies of the management, capture every upcoming opportunity in the market.

### **LIQUIDITY AND FINANCIAL RESOURCES**

#### **Net Assets**

As at 31 December 2001, the Group recorded total assets of approximately HK\$376 million which were financed by liabilities of approximately HK\$192 million and equity of approximately HK\$184 million. The Group's net asset value as at 31 December 2001 decreased by approximately 27% to approximately HK\$184 million as compared to approximately HK\$253 million as at 31 December 2000.

#### **Liquidity**

The Group had total cash and bank balances of approximately HK\$118 million as at 31 December 2001 (2000: approximately HK\$98 million). After deducting bank loans and overdrafts of approximately HK\$66 million (2000: approximately HK\$34 million), the Group recorded a net cash balance of approximately HK\$52 million (2000: approximately HK\$64 million). As at 31 December 2001, the Group had the working capital to the ratio of 1.49 (2000: 1.68) and a long term debt to equity ratio of 1.1% (2000: 1.8%) with equity being defined as the total of capital and reserves.

#### **Charge on assets**

At 31 December 2001 certain land and buildings in the PRC and overseas of the Group and fixed deposits of approximately HK\$9 million were pledged to banks to secure banking facilities granted.

#### **Treasury policies**

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. Cash is generally placed in short term deposits denominated in Hong Kong Dollars.

#### **Contingent liabilities**

At 31 December 2001 the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$50 million.

### **EMPLOYEE AND REMUNERATION POLICIES**

As of 31 December 2001, the Group had approximately 240, 1,350 and 480 employees for the Software business, Electronic products business and Electronic components business, respectively. These employees of which approximately 97% work in the PRC and 3% work in Hong Kong and elsewhere, respectively. The Company has also established a share option scheme and the share options are granted at Directors' discretion to motivate and reward the employees with outstanding performance.

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the rules governing the listing of securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

The Company has established an audit committee in accordance with paragraph 14 of the Code throughout the accounting period covered by the annual report.

### **DETAILED RESULTS ANNOUNCEMENT**

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules of the Stock Exchange will be subsequently published on the Stock Exchange's website in due course.

**Cheung Shuen Lung**

*Chairman*

Hong Kong, 23 April 2002